COUNCIL OF INSTITUTIONAL INVESTORS

Via Hand Delivery

January 25, 2008

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Chairman Cox:

I am writing on behalf of the Council of Institutional Investors ("Council"), an association of more than 130 public, corporate and union pension funds with combined assets of over $3 trillion. As a leading voice for long-term, patient capital, the Council strongly believes that the accuracy of public company financial statements is critical to the integrity of the capital markets.

Reliability of financial reporting promotes investor confidence and allows investors to make more sound investment decisions. A crucial element supporting the reliability of financial reporting are the independent external auditors that provide assurance that the company's financial statements accurately reflect the condition of the business. In the wake of egregious accounting scandals at the start of this decade resulting in implosion of corporate giants such as *Enron Corp.* and *WorldCom Inc.* maintaining the integrity of the covenant among external auditors, the audit committee, and investors remains a pressing issue for our members.

At the Council's fall 2007 meeting, the Council's general membership unanimously voted to adopt a "best practices" policy on external auditor departure and disclosure. The new addition to the Council's policies states:

> The audit committee should publicly provide to shareowners a plain-English explanation of the reasons for a change in the company's external auditors. At a minimum, this disclosure should be contained in the same Securities and Exchange Commission filing that companies are required to submit within four days of an auditor change.[1]

[1] The Council of Institutional Investors Corporate Governance Policies, Board of Directors, II. p. 4 (Updated Sept. 18, 2007)<http://www.cii.org/policies/Current%20CII%20Corporate%20Governance%20Policies%2009-18-07.pdf.

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Consistent with this new policy, the Council respectfully requests that the Securities and Exchange Commission ("SEC") pursue rule-making that would require public companies to provide shareowners with a plain-English descriptive narrative of the reasons for a change in external auditors in *all* cases of such a change. As you are aware, existing SEC rules require companies to disclose their reasons for changing audit firms only when there is a disagreement between the company and the external auditor, or in certain other limited circumstances, such as when the auditor concludes that it could not trust company management.

In our view, the current requirements fail in most cases to provide investors with adequate information about the details behind the dismissal or departure of external auditors. The obscurity surrounding the reasons for the switch encourages speculation and precludes investors from differentiating between legitimate reasons for the change and those that raise a red flag.

Perfectly legitimate reasons for changing auditors may include a firm wanting an auditor that promises better services or that possesses more expertise in a particular industry. However, there are also worrisome reasons for the "break-up" between a company and an external auditor such as the management refusing to provide information necessary for adequate verification of financial statements or disagreement over accounting rules. Such reasons behind the change could be an indicator of management trying to hide questionable accounting manipulation, internal control problems, unsound corporate governance practices, or poor performance.

Shareowners need to be aware of when auditor changes are indicative of activities within the leadership of the company that are inimical to the integrity of the capital markets and long-term value creation. Although some companies give additional details with respect to the change in outside auditors, most do not.

A study by proxy advisory and consulting firm, Glass, Lewis & Co., LLC, found that in 2006 about three-fourths of the 1,322 auditor changes in US companies provided no reason for the switch.[2] Similarly, in 2005, 1,430 public companies changed auditors and companies chose not to provide reasons for their departure in 72% of those the cases. This was up from a 59% non-disclosure rate in 2004, when 1,451 companies changed auditors.

[2] Grothe, Mark & Post, Blaine. Speak No Evil: 2006 Auditor-Turnover Report. Glass, Lewis & Co., LLC (May 21. 2007).